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REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1996-1997

Financial performance report for the biennium 1996-1997

Submitted by the Director-General

Summary

Reports on the utilization of financial resources for the biennium 1996-1997 for the regular and operational budgets.

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Introduction

1. In its conclusion 1987/19, paragraph (j), the Programme and Budget Committee requested the Director-General to submit each year to the Industrial Development Board through the Committee a clear and detailed financial performance report itemizing the utilization of financial resources. The present document presents a comparison for the biennium 1996-1997 of the budget estimates in terms of appropriations and income with actual expenditures and income. The information is provided for both the regular and operational budgets.

I. REGULAR BUDGET PERFORMANCE REPORT

A. Budget estimates for the biennium

2. The budget estimates for the biennium 1996-1997 presented in document IDB/S.6/2 and approved by the General Conference in decision GC.6/Dec.11 were adjusted to reflect changes made to the major programme estimates during the biennium within the total approved net budget as assessed on Member States.

3. The budget estimates comprise:

(a) The budget for 1996-1997 as approved by the General Conference in decision GC.6/Dec.11. The approved budget consisted of appropriations for the biennium of $210,246,600 and income estimates of $29,347,100 (including cost reimbursement) on the basis of an exchange rate of US$ 1 = AS 12.90;

(b) Budgetary adjustments to major programmes resulting from the introduction of organizational changes and programme structure adjustments during the biennium (PBC/AS.3/5-IDB.15/5) in accordance with decision IDB.15/Dec.3.

4. The revised budget estimates by major programme resulting from the above changes are presented in table 1. No changes were made in the budgetary allocations by major object of expenditure. Revisions to the dollar and schilling appropriations and income are shown in table 2.

5. At the time the General Conference approved the programme and budgets, there was a clear expectation that full financial implementation of the budget would be unlikely due to the anticipated non-payment by the United States of America of its 1996 mandatory obligations. For this reason, the Director-General was requested by the General Conference to implement the programme and budgets in accordance with the contingency plans (GC.6/Dec.11, para. (e)). The budget levels under the approved programme and budgets and contingency plans for the 1996-1997 biennium are shown in the following table:

	Thousands of US dollars at US$ 1 = AS 12.90		
	Expenditure	Income	Net
Programme and budgets, 1996-1997	210,246.6	29,347.1	180,899.5
Contingency plans, 1996-1997	187,116.2	28,923.9	158,192.3

6. The contingency plans included reductions in the number of established posts as follows:

	Professional	General Service	Total
Programme and budgets, 1996-1997	305	492	797
Contingency plans, 1996-1997[a]	277	401	678
Reduction in posts	28	91	119

[a]Including eight language training posts abolished as at 1 January 1997.

7. The present document presents the financial performance report on the basis of the programme and budgets for 1996-1997 approved in General Conference decision GC.6/Dec.11 and assessed on Member States. However, as can be seen from the above table, the introduction of the contingency plans effectively reduced the available budget by $22,707,200 or 12.6 per cent.

8. In accordance with decision GC.6/Dec.11, appropriations and estimated income for the biennium are adjusted to take account of exchange rate variations experienced during the biennium. The application of the average exchange rate for the biennium of US$1 = AS 11.28 to the revised appropriations and estimated income presented in table 3 resulted in a restatement of those items to $237,049,600 and $33,287,400, respectively.

B. Assessed contribution income for 1996-1997

9. The financial implementation of the approved programme and budgets is dependent on the actual level of cash resources available during the biennium. The source of financing of the regular budget is the assessed contributions of Member States. Assessed contributions for the biennium 1996-1997 paid to the Organization as

compared with the amounts assessed in accordance with General Conference decision GC.6/Dec.11 are as follows:

	Millions of US dollars
Assessed contributions payable[a]	202.2
Assessed contributions received	155.1
Shortfall in payments	47.1
Percentage shortfall	23.3

[a]Assessed contributions including the mandatory contribution of the United States of America, revalued in accordance with note 2(a) of document IDB.20/3-PBC.14/3.

C. Comparison of budget with actual expenditure and income for 1996-1997

10. A comparison of actual expenditure and income with the revised budget estimates for the biennium is presented below:

	Millions of US dollars			
	Revised US$ 1 = AS 11.28	Actual 1996-1997	Under-utilization	%
Expenditure	237.0	191.2	45.8	19.3
Income	33.3	26.8	6.5	19.5
Net	203.7	164.4	39.3	19.3

11. Comparisons of budget estimates with actual expenditure and income by major programme and major object of expenditure are presented in tables 3 and 4 respectively. Explanations of underutilization by major programme and major object of expenditure are provided in the following paragraphs.

D. Underutilization of the budget

12. The net underutilization of the budget comprised an underexpenditure on appropriations of $45.8 million (19.3 per cent) and a shortfall in income of $6.5 million (19.5 per cent). The major factor contributing to underutilization was the lack of sufficient cash resources throughout the biennium to implement the budget (see para. 9 above). The Organization began the 1996-1997 biennium with minimal available cash balances and fully depleted working capital. The uneven pattern and non-payment of assessed contributions during the biennium did not permit the Secretariat to evenly distribute resources to programmes or to fully implement the budgets. To cope with the financial realities, the Secretariat was obliged to restrict recruitment and reduce allocations for non-staff objects of expenditure, thereby underspending the approved budget.

13. The prospects of significant budget cuts and staff reduction for the forthcoming 1998-1999 biennium also contributed to restrictions in budgetary spending in late 1997. At the end of 1997, the Organization had built up a cash balance of $13.5 million, including cash surpluses from 1992-1993 and balances from the 1996 staff separation reserve. Although an improvement over the previous biennium, this balance barely covered unliquidated obligations. The Working Capital Fund of $6.6 million remained fully depleted.

E. Financial implementation by major programme

14. The underutilization of the budget in all major programmes was due to the impact of the contingency plans and the factors described in paragraphs 12 and 13 above. For the Organization as a whole, the underutilization was $45.8 million or 19.3 per cent. The above average underutilization in Major Programme 700 (Industrial Sectors and Environment) with expenditure $5.9 million (27 per cent) below budget was due mostly to a large number of vacant posts and underexpenditure in travel. Major Programme 300 (Country Programmes and Funds Mobilization) had a similar high level of underutilization of $6.4 million (26.2 per cent). In addition to the underutilization of staff costs due mainly to a high number of vacant posts, Major Programme 300 also underspent on travel and consultant costs. Below budget expenditure was also recorded in field offices, particularly for general operating costs and acquisition of furniture and equipment.

15. Lower-than-average underutilization in Major Programme 200 (General Management) of $2.3 million or 13.6 per cent, Major Programme 800 (Investment and Technology Promotion) of $2.7 million or 14.4 per cent and Major Programme 1200 (Administration) of $4.7 million or 11.3 per cent also reflected the underutilization in staff costs (albeit at lower levels than for other programmes). While these major programmes had fewer vacancies, budget resources were underutilized in expert group meetings, travel costs, contractual services, printing and general operating costs.

16. Expenditure was also reduced through the postponement of maintenance work in the Vienna International Centre (VIC) complex, cutbacks in expenditures for supplies and materials, and replacement of furniture and equipment. Reduction was also made in documentation and other expenditures in services provided to UNIDO. This resulted in an underexpenditure of $11.7 million (20.6 per cent) in Major Programme 1100 (Joint and Common Services).

Reductions in expenditure in this major programme had a direct impact on cost reimbursement income as described in paragraph 22 below.

F. Financial implementation by major object of expenditure

17. The underutilization of budgeted staff costs of $27.9 million (18.3 per cent) comprises:

	Millions of US$
Salaries	20.5
Common staff costs	5.9
Consultants	0.9
Ad hoc expert group meetings	0.4
Other	0.2
Net underutilization	27.9

18. The underutilization of budgeted salary costs was due to the reduction in the number of approved posts in the contingency plans, higher-than-budgeted vacancy factors for Professional posts and variations between actual and standard salary costs.

19. To reduce cash outflow and achieve expenditure reductions due to inadequate levels of cash resources, the following staff cost reduction measures were taken:

(a) Restriction of external recruitment to posts with specialized expertise in priority substantive programmes or essential managerial functions;

(b) Lower utilization of consultant services and *ad hoc* expert group meeting funds;

(c) Restrictions on hiring of general temporary assistance staff and payment of overtime.

20. Underutilization of travel of $1.9 million (46.9 per cent) resulted from savings through reduced standards of travel, maximizing the use of cheaper airfares and a general curtailment of staff travel. The cutbacks described in paragraph 16 above for supplies and materials, replacement of furniture and equipment as well as the postponement of VIC maintenance work resulted in an underutilization of the budget for these objects of expenditure of $5.7 million (17 per cent).

21. The underutilization of the Regular Programme of Technical Cooperation (RPTC) was limited to $1.9 million or 15.8 per cent of the budget for this object of expenditure, which reflects the priority given to funding these activities. The underutilization of other expenses of $6.8 million or 25.1 per cent was related to both Policy-making Organs and Joint and Common Services, in particular those of conference services, including translation and interpretation.

G. Income

22. The deficit of income over the budget estimates comprises

	Millions of US dollars			
	Budget	Actual	Surplus/ (deficit)	%
Cost re-imbursement income	31.6	26.0	(5.6)	
Miscel-laneous income	1.7	0.8	(0.9)	
Total	33.3	26.8	(6.5)	(19.5)

The deficit in cost reimbursement income of $5.6 million is directly related to the underutilization of the budgeted gross expenditure for VIC operating costs. Miscellaneous income was below budget estimates by $0.9 million, as detailed in the following table:

	Millions of US dollars		
	Budget	Actual	Surplus/ (deficit)
Interest income on cash balances	1.6	1.2	(0.4)
Income from sale of publications	0.1	0.2	0.1
Prior year recoveries of expenditure	-	0.6	0.6
Exchange gains	-	(2.5)	(2.5)
Other[a]	-	1.3	1.3
Total	1.7	0.8	(0.9)

[a] Includes CTBTO income for buildings management services

II. OPERATIONAL BUDGET

23. The operational budget is funded mainly from support cost income earned on technical cooperation project delivery and from technical services provided by the Organization. Support costs to be financed during the

biennium from operational budget income were presented in the programme and budget document (IDB/S.6/2) and approved by the General Conference in decision GC.6/Dec.11. Adjustments in accordance with decision IDB.15/Dec.3 resulting from the introduction of organizational changes and programme structure adjustments during the biennium were reported in document PBC/AS.3/5-IDB.15/5.

24. The financial results for the biennium are as follows:

	Millions of US dollars		
	Budget	Actual	Percentage
Technical cooperation delivery	242.0	208.3	86.0
Income earned on delivery and for technical services	29.2	24.8	84.9
Miscellaneous income	0.3	0.5	166.7
Total income	29.5	25.3	85.8
Expenditure	28.9	25.0	86.5
Surplus/(deficit)	0.6	0.3	50.0

25. A comparison of actual expenditure with the adjusted budget estimates, as contained in document PBC/AS.3/5-IDB.15/5, is presented in tables 5 and 6 by major programme and major object of expenditure, respectively.

26. As can be seen in the above table, the percentage shortfall in income was matched by a similar reduction in expenditure which resulted in a surplus for the biennium recorded in the operational budget. This was achieved by maintaining vacancies in established posts and restricting non-staff resource allocations. The average vacancy factor for 1996-1997 for Professional posts was 18.8 per cent and for General Service posts was 9.5 per cent. The surplus of $0.3 million from the 1996-1997 biennium increased the combined operating reserve and fund balances in the operational budget to $4.2 million at 31 December 1997.

III. ACTION REQUIRED OF THE COMMITTEE

27. The Committee may wish to take note of the information provided in the present document.

Table 1

Revised budget estimates for 1996-1997 by major programme

(In thousands of US dollars at US$ 1 = AS 12.90)

	Major programme	Approved budget 1996-1997 a/ (IDB/S.6/2) (a)			Adjustments b/ (b)			Revised budget estimates 1996-1997 (c)=(a + b)		
		Gross	Income	Net	Gross	Income	Net	Gross	Income	Net
100	Policy-making Organs	7,347.8		7,347.8				7,347.8		7,347.8
200	General Management	11,873.9		11,873.9	3,228.8		3,228.8	15,102.7		15,102.7
300	Country Programmes and Funds Mobilization	25,677.6		25,677.6	(3,992.0)		(3,992.0)	21,685.6		21,685.6
500	Research and Publications	15,796.4		15,796.4	(3,244.7)		(3,244.7)	12,551.7		12,551.7
600	Human Resource, Enterprise and Private Sector Development	12,052.6		12,052.6	763.2		763.2	12,815.8		12,815.8
700	Industrial Sectors and Environment	19,368.7		19,368.7				19,368.7		19,368.7
800	Investment and Technology Promotion	13,265.8		13,265.8	3,244.7		3,244.7	16,510.5		16,510.5
900	Common Programmes	18,069.7		18,069.7				18,069.7		18,069.7
1100	Joint and Common Services	49,983.9	26,986.5	22,997.4				49,983.9	26,986.5	22,997.4
1200	Administration	36,810.2	755.2	36,055.0				36,810.2	755.2	36,055.0
	Miscellaneous income		1,605.4	(1,605.4)					1,605.4	(1,605.4)
	TOTAL	210,246.6	29,347.1	180,899.5				210,246.6	29,347.1	180,899.5

Notes:

a/ Approved in GC.6/Dec.11.

b/ Reference to PBC/AS.3/5-IDB.15/5.

Table 2

Revisions to decision GC.6/Dec.11 (adjustment formula)

	GC.6/Dec.11, paragraph (b)		Adjustment		Revised adjustment formula	
	US dollars	Austrian schillings	US dollars	Austrian schillings	US dollars	Austrian schillings
Appropriations						
Policy-making Organs	430,000	89,240,200 /R)			430,000 + (	89,240,200 /R)
General Management	1,361,200	135,614,400 /R)	370,900	36,866,700	1,732,100 + (	172,481,100 /R)
Country Programmes and Funds Mobilization	2,907,900	293,729,580 /R)	(464,400)	(45,505,900)	2,443,500 + (	248,223,680 /R)
Research and Publications	2,098,800	176,698,700 /R)	(454,200)	(35,997,600)	1,644,600 + (	140,701,100 /R)
Human Resource, Enterprise and Private Sector Development	1,497,800	136,156,600 /R)	93,500	8,639,200	1,591,300 + (	144,795,800 /R)
Industrial Sectors and Environment	2,363,000	219,373,400 /R)			2,363,000 + (	219,373,400 /R)
Investment and Technology Promotion	1,760,600	148,416,800 /R)	454,200	35,997,600	2,214,800 + (	184,414,400 /R)
Common Programmes	5,609,700	160,733,940 /R)			5,609,700 + (	160,733,940 /R)
Joint and Common Services	2,950,800	606,726,500 /R)			2,950,800 + (	606,726,500 /R)
Administration	2,639,100	440,807,220 /R)			2,639,100 + (	440,807,220 /R)
Subtotal - Appropriations	23,618,900	2,407,497,340 /R)			23,618,900 + (	2,407,497,340 /R)
Estimated income						
Joint and Common Services	1,184,200	332,849,800 /R)			1,184,200 + (	332,849,800 /R)
Administration	28,000	9,380,700 /R)			28,000 + (	9,380,700 /R)
Miscellaneous	698,800	11,695,200 /R)			698,800 + (	11,695,200 /R)
Subtotal - Estimated income	1,911,000	353,925,700 /R)			1,911,000 + (	353,925,700 /R)
TOTAL NET REQUIREMENTS	21,707,900	2,053,571,640 /R)			21,707,900 + (	2,053,571,640 /R)

Note 1: The net requirements shown above assume a ratio of 12 per cent in US dollars and 88 per cent in Austrian schillings at an exchange rate of US$1 = AS 12.90.

Note 2: R represents the average United Nations exchange rate for Austrian schilling to US dollar which will be experienced during 1996-1997.

Table 3

Regular budget

Financial performance report for 1996-1997 by major programme

(In thousands of US dollars)

	Major programme	Revised budget 1996-1997 a/ at US$ 1 = AS 12.90 (a)	Revised budget estimates 1996-1997 at US$ 1 = AS 11.28 (b)	Actual expenditure/income 1/1/96 to 31/12/97 (c)	Unutilized balance at 31/12/97 (d)=(b-c)	Percentage (e)
Expenditure						
100	Policy-making Organs	7,347.8	8,341.4	6,964.6	1,376.8	16.5
200	General Management	15,102.7	17,023.0	14,705.0	2,318.0	13.6
300	Country Programmes and Funds Mobilization	21,685.6	24,449.1	18,052.6	6,396.5	26.2
500	Research and Publications	12,551.7	14,118.1	10,929.3	3,188.8	22.6
600	Human Resource, Enterprise and Private Sector Development	12,815.8	14,427.8	11,249.3	3,178.5	22.0
700	Industrial Sectors and Environment	19,368.7	21,811.0	15,931.7	5,879.3	27.0
800	Investment and Technology Promotion	16,510.5	18,563.6	15,894.9	2,668.7	14.4
900	Common Programmes	18,069.7	19,859.2	15,411.1	4,448.1	22.4
1100	Joint and Common Services	49,983.9	56,738.6	45,045.5	11,693.1	20.6
1200	Administration	36,810.2	41,717.8	37,010.0	4,707.8	11.3
	Total expenditure	210,246.6	237,049.6	191,194.0	45,855.6	19.3
Income						
1100	Joint and Common Services	26,986.5	30,692.2	24,969.8	5,722.4	
1200	Administration	755.2	859.6	980.3	(120.7)	
	Miscellaneous	1,605.4	1,735.6	855.2	880.4	
	Total income	29,347.1	33,287.4	26,805.3	6,482.1	19.5
	TOTAL	180,899.5	203,762.2	164,388.7	39,373.5	19.3

a/ see Table 1.

Table 4

Regular budget

Financial performance report for 1996-1997 by major object of expenditure

(In thousands of US dollars)

	Major object of expenditure	Approved budget 1996-1997 at US$ 1 =AS 12.90 (a)	Revised budget estimates 1996-1997 at US$ 1 = AS 11.28 (b)	Actual expenditure/income 1/1/96 to 31/12/97 (c)	Unutilized balance at 31/12/97 (d)=(b-c)	Percentage
Expenditure						
100	Staff costs	125,855.3	153,021.5	125,079.0	27,942.5	18.3
200	Official travel	3,760.8	4,108.9	2,180.5	1,928.4	46.9
300	Contractual services	733.0	806.8	733.4	73.4	9.1
400	General operating expenses	27,204.8	30,965.5	26,028.2	4,937.3	15.9
500	Supplies and materials	860.0	971.4	654.9	316.5	32.6
600	Acquisition of furniture and equipment	1,314.2	1,487.2	1,046.5	440.7	29.6
700	EDP non-staff costs	5,567.6	6,315.3	4,849.7	1,465.6	23.2
800	Technical cooperation	10,857.3	12,214.0	10,284.9	1,929.1	15.8
900	Other expenses	24,093.6	27,159.0	20,336.9	6,822.1	25.1
	Total expenditure	210,246.6	237,049.6	191,194.0	45,855.6	19.3
Income						
100	Staff costs	11,080.6	12,561.8	9,363.8	3,198.0	
200	Official travel	6.3	6.9	0.7	6.2	
400	General operating expenses	15,866.5	18,091.6	15,971.7	2,119.9	
500	Supplies and materials	233.2	263.2	152.9	110.3	
600	Acquisition of furniture and equipment	539.1	610.0	457.3	152.7	
700	EDP non-staff costs	0.7	0.8		0.8	
900	Other expenses	15.3	17.5	3.7	13.8	
	Miscellaneous	1,605.4	1,735.6	855.2	880.4	
	Total income	29,347.1	33,287.4	26,805.3	6,482.1	19.5
	TOTAL	180,899.5	203,762.2	164,388.7	39,373.5	19.3

Table 5

Operational budget
Financial performance report for 1996-1997 by major programme

(In thousands of US dollars)

	Major programme	Adjusted budget estimates 1996-1997 a/ at US$ 1 = AS 12.90 (a)	Actual expenditure 1/1/96 to 31/12/97 (b)	Variance (c)=(a-b)
	Policy-making Organs	-	-	
200	General Management	1,461.4	1,581.3	(119.9)
300	Country Programmes and Funds Mobilization	6,816.7	5,485.1	1,331.6
500	Research and Publications	427.4	466.6	(39.2)
600	Human Resource, Enterprise and Private Sector Development	2,748.8	2,448.0	300.8
700	Industrial Sectors and Environment	5,735.5	4,493.3	1,242.2
800	Investment and Technology Promotion	2,651.6	2,223.0	428.6
900	Common Programmes	285.2	158.2	127.0
100	Joint and Common Services	-	-	
1200	Administration	8,730.5	8,198.8	531.7
	TOTAL	28,857.1	25,054.3	3,802.8

a/ As reported in PBC/AS.3/5-IDB.15/5.

Table 6

Operational budget
Financial performance report for 1996-1997 by major object of expenditure

(In thousands of US dollars)

	Major object of expenditure	Adjusted budget estimates 1996-1997 at US$ 1 = AS 12.90 (a)	Actual expenditure 1/1/96 to 31/12/97 (b)	Variance (c)=(a-b)
100	Staff costs	25,231.0	23,069.2	2,161.8
200	Official travel	1,229.3	328.3	901.0
300	Contractual services	31.2	73.4	(42.2)
400	General operating expenses	1,006.5	900.6	105.9
500	Supplies and materials	159.0	60.0	99.0
600	Acquisition of furniture and equipment	284.6	144.5	140.1
700	EDP non-staff costs	915.5	463.1	452.4
800	Technical cooperation			
900	Other expenses		15.2	(15.2)
	TOTAL	28,857.1	25,054.3	3,802.8